Answering Your Biggest Questions on the SECURE Act

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It's already 2020. Once again, the holidays were a blur—and, once again, Congress passed significant legislation at the last minute. This time, it was the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was signed into law on December 20, 2019. In the eyes of some commentators, this is the most significant retirement planning legislation in a generation, and it has raised many questions.

To help you understand the details, let's review some of the most frequently asked questions about the SECURE Act.

Q: The law delays the age for taking required minimum distributions (RMDs) from 70½ to 72. But what if I already started taking RMDs and I'm not yet 72 years old?
A: Individuals who were already taking RMDs by December 31, 2019, must continue taking these distributions. Likewise, anyone who turned age 70½ before December 31, 2019, must begin taking RMDs by April 1, 2020.

Individuals who had *not* reached age 70½ by December 31, 2019, will need to take RMDs starting in the year they turn 72, with the option to delay the first RMD until April 1 of the year after their 72nd birthday.

Q: What does the new 10-year rule mean for inherited IRAs?
A: Prior to the SECURE Act, individual beneficiaries were entitled to stretch out the withdrawal of their inherited retirement account based on their life expectancy. Now, nonspouse beneficiaries are required to withdraw their entire inherited retirement account within 10 years of the original owner's death (with some exceptions).

It's important to note, however, that this rule applies only to the accounts of those who pass away in 2020 and later. If you inherited an IRA before year-end 2019 or have already begun taking RMDs from an inherited account, you will continue to calculate your RMDs using the December 31 account value.

Q: What if I named a trust as the beneficiary of my IRA, for the benefit of my children?
A: Many estate planners establish trusts to help provide a degree of control over inherited IRA assets, particularly for benefactors concerned about spendthrift or immature descendants. The main goal of these trusts is to preserve the ability to stretch RMDs over the beneficiary's life expectancy while limiting the beneficiary's access to the full value of the inherited IRA.

Under the new law, however, there is concern that the trustee may be restricted from making withdrawals and distributions until the 10th year. This could trigger a large tax bill for the beneficiary. To ensure that your wishes are carried out as intended, we recommend revisiting your estate plan with your attorney.

Q: Have changes been made to the qualified charitable distribution (QCD) rules?
A: Account owners age 70½ and older may continue to contribute up to $100,000 per year directly from their IRA to a public charity and exclude the distribution from their taxable income. Because the SECURE Act removed the restriction on traditional IRA contributions after age 70½, however, a new anti-abuse rule has been instituted for QCDs. Now, you must reduce your intended QCD by the cumulative amount of deductible IRA contributions made to your account after age 70½ that have not already offset a previous QCD. This is designed to prevent individuals from getting a duplicate tax benefit on QCDs and traditional IRA contributions after age 70½.

Q: Can I pay student loans with funds from my 529 plan?
A: Student loans are now considered a qualified higher education expense that can be funded from a 529 plan, but you should approach this option with careful consideration. The law has established a $10,000 *lifetime* cap on distributions to pay down student loans, which will not be enough for many students. It's important to note, however, that the $10,000 limit applies per 529 plan beneficiary *and* each of the beneficiary's siblings.

Be aware that, as with K–12 tuition payments that were deemed permissible under the Tax Cuts and Jobs Act, certain states are likely to maintain that student loans are not a qualified expense and may disallow any state tax deductions provided for contributions to the 529 plan. California and Oregon also have a state penalty for nonqualified distributions if they opt not to recognize student loan payments as qualified expenses.

Q: Have the life expectancy tables for calculating RMDs been updated?
A: The SECURE Act did not make changes to the current life expectancy tables. All 2020 RMDs will continue to be calculated using the same tables that have been used in the past. In a movement separate from the SECURE Act, the IRS proposed changes to the tables during 2019. Currently, it is anticipated that these updated tables will be finalized in the first half of 2020 for implementation with 2021 RMD calculations. Nothing is official as of this writing, however.

Securing Your Future

The SECURE Act brought about significant changes to the retirement landscape, so it's important to stay up to date on news regarding its interpretation and how it could influence your financial plans. Continue to review all aspects of your financial plan and beneficiary elections to ensure that you understand how you and your family have been affected. Be sure to reach out to your tax professional or contact our office for help navigating your situation. We are always available should you have any questions or concerns.

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